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# **INCOME SUPPORT, INFLATION, AND HOMELESSNESS**

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## EXECUTIVE SUMMARY

In this note, we provide measures of the effects of high rates of inflation in food prices and the costs of housing on Canadian households reliant on government-provided income assistance. Inflation puts these households at risk because little of their income is indexed to inflation. That which is indexed to inflation varies by province and by family composition. In most provinces, protection from inflation depends on periodic ad hoc adjustments to income support payments, adjustments that are sometimes separated by many years. A notable exception is Quebec, where nearly full indexation ensures recipients of income support are protected from inflation. In other provinces, the general lack of full indexation means that during periods of inflation, Canadians reliant on social assistance are subject to two types of risk, one economic and one political. The economic risk is due to the fact inflation threatens to cause them to endure a catastrophic fall in what is already a low standard of living. The political risk arises because in most provinces, whether inflation results in a fall in living standards is entirely dependent upon whether politicians choose to provide periodic, unscheduled increases in social assistance incomes, euphemistically referred to as income “enrichments.” With a single stroke of a legislative pen the political risk can be eliminated and the economic risk minimized. The high rates of inflation currently being experienced add urgency to this consideration. We show that deteriorating health, increased reliance on food banks and rising rates of homelessness are just some of the inevitable consequences of delay.

## INTRODUCTION

After 30 years of low and steady rates, inflation has reared its head in Canada once again. In May 2022, the Consumer Price Index (CPI) was 7.7 per cent higher than the same month a year earlier. Food prices were 8.8 per cent higher over the same period while shelter costs were higher by 7.4 per cent.<sup>1</sup> These high rates of inflation have prompted the Bank of Canada to increase interest rates in March, April, June and July with more increases possible in the coming months. The Bank's hope is that these increases will eventually reduce inflation back to the central bank's target of two per cent. By most accounts, however, most of the effects these interest rate increases will have on the rate of inflation will be felt only after 18-24 months.<sup>2</sup> While there is considerable uncertainty about future rates of inflation, in no small part due to uncertainty stemming from the war in Ukraine as well as supply chain disruptions and generous federal spending programs associated with COVID-19, the Bank's actions are consistent with an understanding that it expects higher normal rates of inflation for at least the next two years.

A good deal of attention has been paid to the question of what these high rates of inflation in housing and food costs mean for Canadians. Much of the concern has focused on the implications for middle-income Canadians hoping to purchase a home, while squeezing their household budgets. But what do these rates of inflation mean for Canadians with very low income? Individuals and families with low income spend a far larger share of their income on housing and food than the average household. For them, high rates of inflation in the price of food and shelter mean more than having to delay thoughts of homeownership. For them, the threats are considerably more serious.

In this note, we provide measures of the effects of high rates of inflation in food prices and the costs of rental accommodations on Canadian households reliant on government-provided income assistance. We show that in most, though not all provinces, individuals and families reliant on social assistance can be expected to endure significant falls in living standards unless provincial governments introduce large, discretionary and unscheduled increases in social assistance incomes. We provide estimates of what these income increases will need to be. To gain an appreciation of the urgency of these income adjustments, we discuss the ways in which households will be forced to respond to inflation should they fail to materialize. Finally, we use our findings to question why provincial governments choose to adjust income support payments in the way they do. This discussion reveals how individuals and families reliant on income support payments are exposed to both an economic risk due to inflation and a political risk should governments choose to ignore the effects of inflation on those incomes.

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<sup>1</sup> Source: Statistics Canada Table 18-10-0004-01. Statistics Canada defines shelter costs as including all costs associated with renting and owned accommodations. In what follows, we focus on the cost of renting.

<sup>2</sup> Monetary policy influences the economy with long and variable lags requiring the central bank to apply policy changes that it hopes will be appropriate to address conditions that are expected to be observed well into the future. Research at the Bank of Canada has found that most of the effect of interest rate settings is not felt for 18 to 24 months following any change. For an accessible discussion of how monetary works to lower inflation and the time lags involved, see Ragan (2010).

Producing these measures is challenging because they require attention be paid to the cost of housing relevant to individuals and families with low income. This means, for example, that one cannot use a measure of the average cost of housing to gauge the cost of shelter relevant to households with low income. Canadians with low income seek shelter in a much different market than Canadians with moderate or higher incomes. Nor should we use the Consumer Price Index (CPI), a measure specifically designed to track the cost of a basket of goods purchased by a middle-income household, to measure changes in the cost of living as experienced by households with low income. The budgets of Canadians with low income are far more heavily weighted toward paying for food and housing than the budgets of middle-income Canadians and so inflation in these prices has far more serious implications. Finally, attention must be paid to how income assistance is provided and adjusted for inflation by provincial and federal governments. There are 10 provincial governments and a federal government providing and administering various components of income assistance and each adjusts those incomes for inflation in different ways. As a result, there is no single answer to the question of how much rising prices of food and shelter affect individuals and families reliant on social assistance. The answer varies, sometimes quite substantially, from jurisdiction to jurisdiction.

In what follows we look at the budgets of households for 17 communities across Canada. They range in size from Toronto, with a 2019 population of 6.5 million people, to Kelowna, with a population of 135,000. Because they dominate the budgets of households with low income, and because they represent the cost of meeting what are universally understood to be the most basic of needs, we focus on the cost of shelter and the cost of food. We compare the costs of meeting these basic needs to the levels of income available to recipients of income support. This comparison allows us to define a residual income, which is the income remaining after the basic needs of shelter and food are met. This residual income defines what is available for meeting all other basic needs, including the costs of clothing, and expenses related to health, phones and transportation. We then measure the impact on those budgets of the rates of inflation in the prices of shelter and food being experienced currently and expected to be observed in the next couple of years. Finally, we discuss how governments need to respond to what we show to be an impending crisis.

## DEFINING INCOME

While our focus is on the budgets of individuals and families reliant on social assistance, it is important to emphasize that our calculations and discussion matter for a larger fraction of the population than this. For individuals and families with low income, income transfers are a key source of income. In Canada in 2019, earned income accounted for only 22 per cent of the average pre-tax income reported by individuals and families with the lowest 20 per cent of all incomes. The remaining 78 per cent of income received by these individuals and families came in the form of income transfers, mainly in the form of income assistance.<sup>3</sup> Families with very low earned income and families reliant on income assistance are often one and the same and are living with similar budget constraints. This is an important point of emphasis as it means that the well-being of Canadians with low income depends heavily on decisions made by governments with respect to levels of income support.

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<sup>3</sup> Calculated using Statistics Canada Table 11-10-0192-01.

In what follows, we use levels of government-provided income support to represent the budgets available to the most income constrained individuals and families in our 17 communities. One advantage of this approach is that because amounts of social assistance are finely tuned by legislation to the size and composition of families, we can more clearly and precisely see how changes in the price of essentials impact some families more than others. This is important because family size and composition matter for questions such as the affordability of shelter and size of a food budget. Food budgets expand with family size and change with the age of children, as any parent with a teenage child can attest. On the other hand, one's budget for shelter benefits from economies of scale; a one-bedroom apartment appropriate for two people is typically much less costly than twice the rent charged on a studio apartment appropriate for only one person. Understanding the size and composition of families is important for accurately assessing the effects of inflation in the prices of food and shelter.

A second advantage to using social assistance incomes to represent the incomes available to individuals and families with low income is due to the fact legislation determines how rates of inflation change social assistance incomes. Thus, we can show how any assumed rate of inflation will affect those incomes.

In what follows we consider the social assistance incomes of single individuals and lone-parent families. We also consider the social assistance income available to a single person receiving disability supports. These three categories constitute approximately 70 per cent of all social assistance cases in Canada.<sup>4</sup>

Income assistance is based on data reported in Laidley and Aldridge (2020).<sup>5</sup> Social assistance income represents the maximum benefit available, inclusive of all tax and child benefits from both the province and the federal government, available to an individual or family with no other source of income.<sup>6</sup> The size of these incomes is reported below.

Having defined income, we next describe the budget for each of our family compositions. This is a difficult question to answer because not all families are alike and even families similar in size and demographics (number of children versus adults, age, health status) have different preferences and needs for consuming different goods and services. But all individuals and all families need housing and all need food. These are the most basic of needs. So, we start there.

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<sup>4</sup> The percentage varies by province. The 70 per cent figure reflects what is currently the case in Ontario. Source: <https://www.ontario.ca/page/social-assistance-and-caseload-statistics>.

<sup>5</sup> The data in Laidley and Aldridge (2020) are reported in real dollars calculated using the national value of the Consumer Price Index. We thank Sherri Torjman, Anne Tweddle and Ken Battle for providing us with the unpublished nominal values of social assistance incomes. The availability of these data allows us to adjust for inflation using community-specific values of the CPI.

<sup>6</sup> An important assumption made here is that all benefits are applied for, and all applications are successful.

## THE COST OF SHELTER

The cost of housing that is most relevant for individuals and families with low income, and particularly those dependent on social assistance, is rent. Rents vary by size of rental unit and by community. They also vary by quality (old units in need of repair versus new units with modern facilities) and by location (proximity to schools, public transportation, food stores). When using rents as a measure of shelter costs relevant for households with limited income, it is important to recognize that for most such households the rental market is for units of relatively poor quality and so offered at relatively low cost. This observation is important to emphasize because it means the average or the median rent in a city is not a good measure of the housing cost relevant for people reliant on social assistance.

Kneebone and Wilkins (2016) present data on the distribution of rents on studio, one-bedroom and two-bedroom apartments in nine cities. The distribution of rents varies widely by city. For example, in 2014, the range of rents defining the second quintile of the distribution of rents on one-bedroom units in Toronto was noticeably higher than the range of rents on one-bedroom units defining the fourth quintile of rents in Montreal. Rents vary widely both within and between cities. Talking about Canadian averages hides important variation and produces misleading indications of what rent inflation may mean for individuals and families with limited incomes. This is one reason for our choosing to show calculations for 17 communities with a wide range of populations. In our calculations, we assume households with low income pay a rent at the upper limit of the first (lowest) quartile of rents available in their community.<sup>7</sup>

An important assumption when considering the implications of rent and food inflation is the type of accommodation in which people receiving social assistance live. We assume a lone parent with one child rents a one-bedroom unit. For our calculations, we assume a single person receiving disability benefits lives on their own in a studio apartment. A single person not considered by the social assistance program to be dealing with a disability is assumed to share the cost of a one-bedroom rental with another single person who also receives benefits. This latter assumption reflects what is minimally feasible for single people receiving benefits. In our calculations, the benefits paid to a single person living on their own is rarely sufficient to meet the cost of rent and food, never mind the cost of other necessities. They must find at least one roommate and so this is what we assume. For a single person receiving disability benefits, that income is enough in some provinces to pay for both rent and food, though, as we report below, this leaves little to pay for other of life's necessities. Other assumptions can be made about numbers of roommates and size of rental accommodations. None of them matter for the issue upon which we focus, namely, showing how quickly inflation erodes the living standards of people reliant on social assistance income.

We recognize that these assumptions are not always in compliance with National Occupancy Standards for suitable accommodations. For example, our assumption that a lone parent with one child might wish to use a sofa-bed in a one-bedroom apartment (leaving the bedroom for the child) is contrary to the NOS, suggesting that a suitable accommodation would mean the parent and child have separate bedrooms. Our assumption

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<sup>7</sup> Data on rents by community are available from the Housing Market Information Portal maintained by Canada Mortgage and Housing Corporation (CMHC) <https://www.cmhc-schl.gc.ca>.

is that parents make choices that maximize their family’s well-being and that if the choice is between what the NOS defines as “crowding” and forgoing other necessities, then they will choose crowding. We return to the issue of crowding as a response to inflation in our discussion below.

## THE FOOD BUDGET

Several estimates are available describing the cost of a food budget for families of different sizes and composition. The Alberta government publishes estimates of the cost of food for families of different sizes and composition living in Edmonton.<sup>8</sup> These estimates are calculated by age and sex and can be used to define the cost of a food budget for any family composition. The latest estimates are based on food costs observed in Edmonton in December 2019. The Montreal Diet Dispensary<sup>9</sup> provides estimates of the minimum cost of an adequate diet for different family sizes and compositions of those living in that city. The latest estimates are based on food costs observed in Montreal in May 2020. Both food budgets should be understood to be conservative estimates because the actual amount of food expenditure may be higher due to food allergies or sensitivities, nutritional requirements for dealing with acute or chronic health conditions, the availability of time, skills and equipment to prepare meals and easy access to full-service grocery stores.

**Table 1: Monthly Food Budget**

|                               | Jurisdiction |          |          |
|-------------------------------|--------------|----------|----------|
|                               | Edmonton     | Montreal | Canada   |
| <b>Single</b>                 |              |          |          |
| 19-30 years of age            | \$328.51     | \$277.62 | \$295.39 |
| 31-50 years of age            | \$307.43     | \$267.98 |          |
| <b>Lone Parent, one child</b> | \$474.37     | \$462.78 | \$468.58 |

Notes: We use the average of food budgets for a single male and a single female. The lone parent is assumed to be female and aged 19-30 years. The child is assumed to be aged four to nine years and we use the average of amounts identified as appropriate for a male and a female child. The estimates for Edmonton are for December 2019. The estimates for Montreal are for May 2020.

Table 1 presents the estimated monthly food budgets from these two sources. They tell a consistent story of how food costs are sensitive to family size and composition, though they suggest food costs may be higher in Edmonton than in Montreal. The last column (“Canada”) uses the average of the estimates for Edmonton and Montreal and will be used to represent the food budgets used for calculations we make representing household budgets in 2019. We assume these food budgets were relevant in all 17 of our communities in 2019. We further assume that the food budget we use for a single person is the same regardless of whether that person is dealing with a disability. To the extent that a disability may demand a more specialized, and likely more expensive food budget, this is a limiting assumption. In the absence of more detailed estimates, we are painting a picture using broad strokes.

<sup>8</sup> Available online at <https://open.alberta.ca/publications/2725193>.

<sup>9</sup> Available online at <https://www.dispensaire.ca/wp-content/uploads/20-05-Co%C3%BBt-PPN-base-ANG.pdf>.



## RESIDUAL INCOME

For each of our 17 communities, Table 2 presents the monthly social assistance income and the monthly rent and food budgets for our three family compositions for 2019. In the last three columns, we show what we refer to as “residual income.” This is the income remaining from social assistance after paying for rent and food. The amount of residual income is what is available to pay for other of life’s necessities.

**Table 2: Social Assistance Income, Rent, Food and Residual Budgets, 2019**

| City           | Annual Social Assistance Income |                           |                            | Monthly Rent |             | Annual Food Budget |                            | Annual Residual Income     |  |   |
|----------------|---------------------------------|---------------------------|----------------------------|--------------|-------------|--------------------|----------------------------|----------------------------|--|---|
|                | Single Person                   | Single Person, Disability | Lone Parent with one child | Studio       | One Bedroom | Single Person      | Lone Parent with one child | Single Person <sup>a</sup> | Single Person, Disability <sup>b</sup> | Lone Parent with one child <sup>c</sup> |
| St. John's     | \$11,386                        | \$11,586                  | \$23,579                   | \$600        | \$718       | \$3,545            | \$5,623                    | \$3,533                    | \$841                                  | \$9,340                                 |
| Halifax        | \$7,442                         | \$10,270                  | \$18,373                   | \$695        | \$725       | \$3,545            | \$5,623                    | -\$453                     | -\$1,615                               | \$4,050                                 |
| Saint John     | \$7,131                         | \$9,843                   | \$20,111                   | \$449        | \$575       | \$3,545            | \$5,623                    | \$136                      | \$910                                  | \$7,588                                 |
| Fredericton    | \$7,131                         | \$9,843                   | \$20,111                   | \$625        | \$685       | \$3,545            | \$5,623                    | -\$524                     | -\$1,202                               | \$6,268                                 |
| Montreal       | \$12,425                        | \$14,061                  | \$22,362                   | \$520        | \$600       | \$3,545            | \$5,623                    | \$5,280                    | \$4,276                                | \$9,539                                 |
| Trois-Rivieres | \$12,425                        | \$14,061                  | \$22,362                   | \$350        | \$425       | \$3,545            | \$5,623                    | \$6,330                    | \$6,316                                | \$11,639                                |
| Hamilton       | \$9,773                         | \$15,119                  | \$21,789                   | \$665        | \$850       | \$3,545            | \$5,623                    | \$1,128                    | \$3,594                                | \$5,966                                 |
| London         | \$9,773                         | \$15,119                  | \$21,789                   | \$595        | \$781       | \$3,545            | \$5,623                    | \$1,542                    | \$4,434                                | \$6,794                                 |
| Ottawa         | \$9,773                         | \$15,119                  | \$21,789                   | \$810        | \$989       | \$3,545            | \$5,623                    | \$294                      | \$1,854                                | \$4,298                                 |
| Toronto        | \$9,773                         | \$15,119                  | \$21,789                   | \$875        | \$1,085     | \$3,545            | \$5,623                    | -\$282                     | \$1,074                                | \$3,146                                 |
| Winnipeg       | \$9,639                         | \$12,651                  | \$22,347                   | \$611        | \$825       | \$3,545            | \$5,623                    | \$1,144                    | \$1,774                                | \$6,824                                 |
| Regina         | \$8,829                         | \$15,826                  | \$21,241                   | \$600        | \$800       | \$3,545            | \$5,623                    | \$484                      | \$5,081                                | \$6,018                                 |
| Saskatoon      | \$8,829                         | \$15,826                  | \$21,241                   | \$650        | \$800       | \$3,545            | \$5,623                    | \$484                      | \$4,481                                | \$6,018                                 |
| Calgary        | \$9,377                         | \$20,808                  | \$22,736                   | \$795        | \$920       | \$3,545            | \$5,623                    | \$312                      | \$7,723                                | \$6,073                                 |
| Edmonton       | \$9,377                         | \$20,808                  | \$22,736                   | \$750        | \$875       | \$3,545            | \$5,623                    | \$582                      | \$8,263                                | \$6,613                                 |
| Kelowna        | \$9,512                         | \$15,293                  | \$21,395                   | \$938        | \$910       | \$3,545            | \$5,623                    | \$507                      | \$492                                  | \$4,852                                 |
| Vancouver      | \$9,512                         | \$15,293                  | \$21,395                   | \$990        | \$1,100     | \$3,545            | \$5,623                    | -\$633                     | -\$132                                 | \$2,572                                 |

Notes: a Shares the cost of a one-bedroom apartment. b Rents a studio apartment. c Rents a one-bedroom apartment. Rents represent the monthly cost of a rental unit priced at the upper limit of the first (lowest) quartile of rental units available in that community.

The calculations in Table 2 show that for a lone parent with one child, shelter and food costs typically account for 44 per cent and 26 per cent, respectively, of social assistance income. The total of these two budget shares varies from highs of 86 per cent and 88 per cent in Toronto and Vancouver, respectively, to lows of 48 per cent and 57 per cent in Trois-Rivieres and Montreal. For a single person sharing the cost of a one-bedroom apartment, these shares are, across all cities, 51 per cent (shelter) and 38 per cent (food), respectively, of social assistance income. If that single person receives disability income and lives alone in a studio apartment, the shares are 57 per cent and 26 per cent, respectively. The calculations reported in the last three columns show that for individuals and families



reliant on social assistance, there is rarely very much income available for paying for necessities other than food and shelter. The negative values calculated for single people in Halifax, Fredericton, Toronto and Vancouver are noteworthy but even values of less than \$1,200 require a single person to get by on less than \$25 per week after paying for food and shelter.

## **THE IMPACT OF INFLATION**

Table 2 tells a story of very tight budgets. But it is only a snapshot. It does not describe what happens to the shares of income that must be allocated to rent and food, and the residual share available to pay for all other expenditures, during a period of inflation.

If incomes and all prices of goods and services increased at the same rate, inflation would not be a concern to someone dependent on social assistance. If 50 per cent of income were allocated to the cost of shelter before a period of inflation, then it would be the same 50 per cent of income again, following that period of inflation, as long as both income and the cost of shelter increased at the same rate. But for individuals and families reliant on social assistance, that is not typically the case. One reason is that in some jurisdictions very little of social assistance income is indexed to any measure of inflation.

For each provincial system of social assistance, Table 3 reports what parts of income support are indexed to inflation. Except for Quebec and New Brunswick, the largest component of social assistance income, the one we refer to as Basic Social Assistance, is not indexed to inflation. Some provinces offer what are referred to as Additional Social Assistance Benefits, but only in Manitoba the additional benefit is indexed to inflation. Many provinces offer benefits in the form of tax credits, but only in Ontario and Quebec those benefits are indexed to inflation. To its credit, the federal government's contributions to income support, in the form of the Canada Child Benefit and the GST rebate, are both indexed for inflation. This contrasts with the provinces, where only three of the seven that provide child benefits have indexed them to inflation.

**Table 3: Indexation of Social Assistance Incomes**

|                         | <b>Basic Social Assistance<sup>†</sup></b> | <b>Additional Social Assistance Benefits<sup>†</sup></b> | <b>Federal Child Benefit<sup>*</sup></b> | <b>Provincial Child Benefit<sup>†</sup></b> | <b>GST Rebate<sup>*</sup></b> | <b>Provincial Tax Credits<sup>†</sup></b> |
|-------------------------|--|--|--|---|-------------------------------|---|
| British Columbia        | No   | No   | Yes                                      | No  | Yes                           | No  |
| Alberta                 | No   |  | Yes                                      | No  | Yes                           |   |
| Saskatchewan            | No   |  | Yes                                      |   | Yes                           | No  |
| Manitoba                | No   | Yes  | Yes                                      |   | Yes                           |   |
| Ontario                 | No   |  | Yes                                      | Yes   | Yes                           | Yes                                       |
| Quebec                  | Yes  | No   | Yes                                      | Yes   | Yes                           | Yes                                       |
| New Brunswick           | Yes  | No   | Yes                                      | No  | Yes                           | No  |
| Nova Scotia             | No   |  | Yes                                      | No  | Yes                           | No  |
| Prince Edward Island    | No   |  | Yes                                      |   | Yes                           | No  |
| Newfoundland & Labrador | No   | No   | Yes                                      | Yes   | Yes                           | No  |

Notes: A blank cell indicates no such benefit is provided. \* Denotes that this benefit is indexed to the all-items CPI for Canada. † Denotes that if “Yes” appears on a cell, that benefit is indexed to the all-items CPI specific to that province. Sources: Laidley and Aldridge (2020) and authors’ reviews of federal and provincial legislation.

Not all the components of social assistance income identified in Table 3 are the same size. The importance of indexation depends on which component is indexed and its share of total income. For each province and for each of our three household definitions, Table 4 reports what percentage of social assistance income is indexed to inflation.

The importance of the federal commitment to index child benefits to inflation is apparent in comparing how the percentage of income support that is indexed to inflation differs for single people versus parents. Except in Quebec and New Brunswick, single people have been largely abandoned when it comes to indexation. During periods of inflation, the only portion of social assistance income provided to single people in B.C., Alberta, Saskatchewan, Nova Scotia, PEI and Newfoundland and Labrador that is indexed is the federally funded GST rebate. In Ontario, some small provincial tax credits are also indexed. But apart from these exceptions, single people are wholly reliant on discretionary and unscheduled increases in social assistance incomes administered by provincial governments.

**Table 4: Percentage of Social Assistance Income Indexed to Inflation, 2019**

|                         | <b>Lone Parent</b> | <b>Single</b> | <b>Single, disabled</b> |
|-------------------------|--------------------|---------------|-------------------------|
| British Columbia        | 34%                | 3%            | 2%                      |
| Alberta                 | 32%                | 3%            | 2%                      |
| Saskatchewan            | 34%                | 3%            | 3%                      |
| Manitoba                | 78%                | 75%           | 69%                     |
| Ontario                 | 45%                | 10%           | 7%                      |
| Quebec                  | 96%                | 100%          | 100%                    |
| New Brunswick           | 89%                | 94%           | 84%                     |
| Nova Scotia             | 40%                | 4%            | 3%                      |
| Prince Edward Island    | 33%                | 3%            | 2%                      |
| Newfoundland & Labrador | 33%                | 3%            | 3%                      |

Sources: Laidley and Aldridge (2020) and authors' reviews of federal and provincial legislation.

Another reason inflation is a threat to individuals and families reliant on social assistance income is that the portion of their income which is indexed is tied to a rate of inflation that is not entirely relevant to them. This is because the index used is the all-items CPI, a measure used to describe inflation as it is experienced by the average middle-income household.<sup>10</sup> In this measure, the costs of shelter and food are assumed to comprise 30 per cent and 16 per cent, respectively, of total household expenditures (Statistics Canada 2021). As noted above, for a lone parent reliant on social assistance, these shares in fact, are much larger, averaging 44 per cent and 26 per cent, respectively, across Canada. For a single person sharing the cost of a one-bedroom apartment, these shares are, across all cities, 51 per cent (shelter) and 38 per cent (food), respectively, of social assistance income. In cities like Toronto and Vancouver, these expenditure shares are higher still. The implication is that if the prices of food and shelter rise faster than the prices of other goods and services, the CPI will provide an underestimate of the rate of inflation as it is experienced by individuals and families with low income. In this case, even if social assistance income is fully indexed to the all-items CPI, it will increase by less than necessary for it to keep up with increases in those costs of goods and services that social assistance recipients, rather than the average household, buy. The importance of this consideration grows with differences in the rates of inflation for housing and food versus other goods in the CPI basket.

<sup>10</sup> The all-items CPI that a provincial government uses to provide inflation protection measures inflation as it is experienced by a middle-income household in that province. The CPI's national value, which the federal government uses to index the GST credit and the Canada Child Benefit, is a population-weighted average of provincial indexes.

## LOOKING AHEAD

With this as background, we are now ready to describe the impact on individuals and families reliant on social assistance income of what is expected to be a period of rising prices on food and housing.

To show how rising prices for food and shelter matter for individuals and families with low income, we build off the calculations presented in Table 2. The calculations in Table 2 are based on prices and incomes as they were observed prior to the COVID-19 pandemic, in 2019. The choice of 2019 is intentional as we wish to avoid the complication of adding, and then subtracting, increases in social assistance incomes, made available by federal and provincial governments to help individuals and families cope with the implications of COVID-19. Adding those temporary benefits only to remove them, as we anticipate will happen as the pandemic wanes, confuses our main message about how inflation affects individuals and families reliant on social assistance.

Table 5 shows the effects of inflation on the budget of a lone parent with one child renting a low-quality one-bedroom apartment and completely reliant on social assistance income over a three-year period. We show this for each of the 17 communities across Canada. Our base year is represented by the results we calculated for 2019.

Based on recent data, we assume the all-items CPI increases by 7.7 per cent each year for three years. We further assume the increase in the CPI index for each province is the same as that for all of Canada. Again, based on recent history, food prices and rents are assumed to increase by 9.7 per cent and 4.5 per cent, respectively, each year.<sup>11</sup> Finally, we assume that prices of goods and services, purchased with residual income, increase at the same rate as the all-items CPI, at 7.7 per cent per year. These rates of inflation are assumed to be the same in all communities. These are simplifying assumptions as the rates of inflation on food and rent and other goods and services may differ by community and may change over time. In producing these calculations, we also assume the quantity and quality of goods and services purchased, including food and rented accommodations, remain constant. For reasons we discuss below, a family may respond to rising prices in a way that reduces their food and rent budgets.

All values in the table are measured in nominal dollars. For each city, we report social assistance income (“Income”), annual rent payments (“Rent”) and annual food expenditures (“Food”) for a lone parent with one child, for each of three years during a period of high inflation. Annual rent payments and food budgets increase by the assumed rates of inflation for rent and food. The amount by which income grows is determined by the degree of indexation of that income and by the assumed rate of increase in the CPI all-items index. The amounts reported do not show the effects of *ad hoc* enrichments to benefits. For each city, the fourth row reports the residual income available to this family (“Residual”). It is the difference between income and the sum of the amounts allocated to paying for rent and food. This residual is calculated on the assumption there is no *ad hoc* income enrichment provided. Finally, for each city the last row reports, in nominal dollars, the income enrichment required to keep residual income constant in real terms and so prevent a deterioration of living standards. The addition of this amount to income is not shown in the table but is used in the calculation of the enrichment required in the following year.

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<sup>11</sup> Consistent with our assumption that individuals and families receiving social assistance income rent, we use the rate of inflation of rented accommodations over the period May 2021 to May 2022. We use the rate of increase in the price of food purchased from stores over this same period. These data are reported in Statistics Canada Table 18-10-0004-01.

**Table 5: The Impact on Social Assistance Incomes of Rising Food and Shelter Costs, Lone Parent with One Child in a One-Bedroom Apartment**

|                       | Base Year | Year 1   | Year 2   | Year 3   |
|-----------------------|-----------|----------|----------|----------|
| <b>St. John's</b>     |           |          |          |          |
| Income                | \$23,579  | \$24,172 | \$24,810 | \$25,497 |
| Rent                  | \$8,616   | \$9,004  | \$9,409  | \$9,832  |
| Food                  | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual              | \$9,340   | \$8,999  | \$8,634  | \$8,242  |
| Required enrichment   |           | \$1,060  | \$1,140  | \$1,227  |
| <b>Halifax</b>        |           |          |          |          |
| Income                | \$18,373  | \$18,935 | \$19,539 | \$20,191 |
| Rent                  | \$8,700   | \$9,092  | \$9,501  | \$9,928  |
| Food                  | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual              | \$4,050   | \$3,675  | \$3,272  | \$2,839  |
| Required enrichment   |           | \$687    | \$739    | \$794    |
| <b>Saint John</b>     |           |          |          |          |
| Income                | \$20,111  | \$21,492 | \$22,980 | \$24,582 |
| Rent                  | \$6,900   | \$7,211  | \$7,535  | \$7,874  |
| Food                  | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual              | \$7,588   | \$8,113  | \$8,678  | \$9,285  |
| Required enrichment   |           | \$59     | \$65     | \$71     |
| <b>Fredericton</b>    |           |          |          |          |
| Income                | \$20,111  | \$21,492 | \$22,980 | \$24,582 |
| Rent                  | \$8,220   | \$8,590  | \$8,976  | \$9,380  |
| Food                  | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual              | \$6,268   | \$6,734  | \$7,236  | \$7,778  |
| Required enrichment   |           | \$17     | \$17     | \$18     |
| <b>Montreal</b>       |           |          |          |          |
| Income                | \$22,362  | \$24,010 | \$25,785 | \$27,696 |
| Rent                  | \$7,200   | \$7,524  | \$7,863  | \$8,216  |
| Food                  | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual              | \$9,539   | \$10,318 | \$11,155 | \$12,057 |
| Required enrichment   |           | -\$44    | -\$47    | -\$49    |
| <b>Trois-Rivieres</b> |           |          |          |          |
| Income                | \$22,362  | \$24,010 | \$25,785 | \$27,696 |
| Rent                  | \$5,100   | \$5,330  | \$5,569  | \$5,820  |
| Food                  | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual              | \$11,639  | \$12,512 | \$13,449 | \$14,453 |
| Required enrichment   |           | \$23     | \$29     | \$35     |
| <b>Hamilton</b>       |           |          |          |          |
| Income                | \$21,789  | \$22,541 | \$23,351 | \$24,223 |
| Rent                  | \$10,200  | \$10,659 | \$11,139 | \$11,640 |
| Food                  | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual              | \$5,966   | \$5,714  | \$5,445  | \$5,160  |
| Required enrichment   |           | \$712    | \$763    | \$818    |
| <b>London</b>         |           |          |          |          |
| Income                | \$21,789  | \$22,541 | \$23,351 | \$24,223 |
| Rent                  | \$9,372   | \$9,794  | \$10,234 | \$10,695 |
| Food                  | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual              | \$6,794   | \$6,579  | \$6,350  | \$6,105  |
| Required enrichment   |           | \$738    | \$793    | \$852    |

|                     | Base Year | Year 1   | Year 2   | Year 3   |
|---------------------|-----------|----------|----------|----------|
| <b>Ottawa</b>       |           |          |          |          |
| Income              | \$21,789  | \$22,541 | \$23,351 | \$24,223 |
| Rent                | \$11,868  | \$12,402 | \$12,960 | \$13,543 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$4,298   | \$3,970  | \$3,624  | \$3,256  |
| Required enrichment |           | \$659    | \$703    | \$751    |
| <b>Toronto</b>      |           |          |          |          |
| Income              | \$21,789  | \$22,541 | \$23,351 | \$24,223 |
| Rent                | \$13,020  | \$13,606 | \$14,218 | \$14,858 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$3,146   | \$2,767  | \$2,366  | \$1,942  |
| Required enrichment |           | \$622    | \$662    | \$705    |
| <b>Winnipeg</b>     |           |          |          |          |
| Income              | \$22,347  | \$23,683 | \$25,123 | \$26,673 |
| Rent                | \$9,900   | \$10,346 | \$10,811 | \$11,298 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$6,824   | \$7,169  | \$7,545  | \$7,952  |
| Required enrichment |           | \$180    | \$191    | \$202    |
| <b>Regina</b>       |           |          |          |          |
| Income              | \$21,241  | \$21,803 | \$22,407 | \$23,059 |
| Rent                | \$9,600   | \$10,032 | \$10,483 | \$10,955 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$6,018   | \$5,602  | \$5,157  | \$4,680  |
| Required enrichment |           | \$879    | \$944    | \$1,014  |
| <b>Saskatoon</b>    |           |          |          |          |
| Income              | \$21,241  | \$21,803 | \$22,407 | \$23,059 |
| Rent                | \$9,600   | \$10,032 | \$10,483 | \$10,955 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$6,018   | \$5,602  | \$5,157  | \$4,680  |
| Required enrichment |           | \$879    | \$944    | \$1,014  |
| <b>Calgary</b>      |           |          |          |          |
| Income              | \$22,736  | \$23,298 | \$23,902 | \$24,554 |
| Rent                | \$11,040  | \$11,537 | \$12,056 | \$12,598 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$6,073   | \$5,592  | \$5,080  | \$4,532  |
| Required enrichment |           | \$948    | \$1,016  | \$1,090  |
| <b>Edmonton</b>     |           |          |          |          |
| Income              | \$22,736  | \$23,298 | \$23,902 | \$24,554 |
| Rent                | \$10,500  | \$10,973 | \$11,466 | \$11,982 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$6,613   | \$6,157  | \$5,669  | \$5,148  |
| Required enrichment |           | \$966    | \$1,036  | \$1,112  |
| <b>Kelowna</b>      |           |          |          |          |
| Income              | \$21,395  | \$21,957 | \$22,561 | \$23,213 |
| Rent                | \$10,920  | \$11,411 | \$11,925 | \$12,462 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$4,852   | \$4,377  | \$3,870  | \$3,328  |
| Required enrichment |           | \$849    | \$909    | \$975    |
| <b>Vancouver</b>    |           |          |          |          |
| Income              | \$21,395  | \$21,957 | \$22,561 | \$23,213 |
| Rent                | \$13,200  | \$13,794 | \$14,415 | \$15,063 |
| Food                | \$5,623   | \$6,168  | \$6,767  | \$7,423  |
| Residual            | \$2,572   | \$1,994  | \$1,380  | \$726    |
| Required enrichment |           | \$776    | \$828    | \$883    |

The key calculation from this exercise is to show how residual income changes during a period of high inflation should there be no *ad hoc* enrichments made to social assistance income. Should it fall in nominal dollar terms, or if it increases by less than the increase in the prices of goods and services purchased with residual income, then the household suffers a fall in its standard of living. At some point, it will need to find ways of reducing its food and rent budgets.

The importance of indexation is clear from the table. In 12 of our 17 cities, residual income steadily falls, in nominal dollar terms, during the period of inflation, if no income enrichments are made. For lone-parent families in these 12 cities, inflation imposes a devastating burden, should no income enrichments be made. In Toronto, for example, where only 45 per cent of the social assistance available to a family is indexed to inflation, residual income would fall by nearly 40 per cent after three years. The budget available for all goods and services, other than food and rent would fall from \$60.50 per week to just \$37.34 per week. In Vancouver, where only 34 per cent of this family's income support is indexed, the situation is worse. The budget available for all things, other than food and rent, would fall from \$49.46 per week to just \$13.96 per week. In terms of purchasing power, the fall in income is even steeper.

Prospects for this family are better in those provinces where the percentage indexation of the budget is greater. Quebec (96 per cent), New Brunswick (89 per cent) and Manitoba (78 per cent) are noteworthy for indexing to inflation, in conjunction with the federal government, far more of the income support provided to a lone parent. These higher commitments to indexation are the reasons why residual incomes of lone-parent families, residing in cities in those provinces, increase over time. Note, however, these are increases measured in nominal dollars. Thus, while residual income increases in Winnipeg, for example, this increase is insufficient to keep up with inflation in the prices of goods and services they buy with their residual income, and so this family still faces increasingly difficult choices. Only in Quebec are lone-parent families largely shielded from the effects of inflation.

For each city, the last row reports what is required of provincial governments to prevent the deterioration of the real value of residual income. These annual amounts are very small for communities in Quebec, thanks to the fact that most of the social assistance income is being indexed to inflation. In provinces where the share of income that is indexed is low, the required annual income enrichment is high. In cities like Calgary and Edmonton, where only 32 per cent of income assistance to a lone parent is indexed, the income enrichment needs to be approximately \$1,000 per year or \$83 per month.

Tables 6 and 7 present similar calculations for a single person sharing rent on a low-quality one-bedroom apartment with another single person, as well as for a single person receiving disability income supports living alone in a low-quality studio apartment. For single people, already small residual incomes quickly turn negative, indicating savings must be found in their food and shelter budgets. As the negative value of residual income grows in absolute value, having to give up housing and becoming homeless becomes more and more inevitable.

**Table 6: The Impact on Social Assistance Incomes of Rising Food and Shelter Costs, Single Adult Sharing a One-Bedroom**

|                       | Base Year | Year 1   | Year 2   | Year 3   |
|-----------------------|-----------|----------|----------|----------|
| <b>St. John's</b>     |           |          |          |          |
| Income                | \$11,386  | \$11,410 | \$11,437 | \$11,465 |
| Rent                  | \$4,308   | \$4,502  | \$4,704  | \$4,916  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$3,533   | \$3,020  | \$2,467  | \$1,870  |
| Required enrichment   |           | \$785    | \$846    | \$913    |
| <b>Halifax</b>        |           |          |          |          |
| Income                | \$7,442   | \$7,464  | \$7,488  | \$7,514  |
| Rent                  | \$4,350   | \$4,546  | \$4,750  | \$4,964  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | -\$453    | -\$970   | -\$1,528 | -\$2,130 |
| Required enrichment   |           | \$483    | \$520    | \$561    |
| <b>Saint John</b>     |           |          |          |          |
| Income                | \$7,131   | \$7,649  | \$8,207  | \$8,809  |
| Rent                  | \$3,450   | \$3,605  | \$3,767  | \$3,937  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$136     | \$156    | \$174    | \$192    |
| Required enrichment   |           | -\$9     | -\$7     | -\$6     |
| <b>Fredericton</b>    |           |          |          |          |
| Income                | \$7,131   | \$7,649  | \$8,207  | \$8,809  |
| Rent                  | \$4,110   | \$4,295  | \$4,488  | \$4,690  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | -\$524    | -\$534   | -\$546   | -\$561   |
| Required enrichment   |           | -\$30    | -\$31    | -\$32    |
| <b>Montreal</b>       |           |          |          |          |
| Income                | \$12,425  | \$13,382 | \$14,412 | \$15,522 |
| Rent                  | \$3,600   | \$3,762  | \$3,931  | \$4,108  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$5,280   | \$5,731  | \$6,215  | \$6,734  |
| Required enrichment   |           | -\$44    | -\$46    | -\$47    |
| <b>Trois-Rivieres</b> |           |          |          |          |
| Income                | \$12,425  | \$13,382 | \$14,412 | \$15,522 |
| Rent                  | \$2,550   | \$2,665  | \$2,785  | \$2,910  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$6,330   | \$6,828  | \$7,362  | \$7,932  |
| Required enrichment   |           | -\$11    | -\$8     | -\$5     |
| <b>Hamilton</b>       |           |          |          |          |
| Income                | \$9,773   | \$9,848  | \$9,929  | \$10,017 |
| Rent                  | \$5,100   | \$5,330  | \$5,569  | \$5,820  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$1,128   | \$630    | \$94     | -\$483   |
| Required enrichment   |           | \$585    | \$630    | \$678    |
| <b>London</b>         |           |          |          |          |
| Income                | \$9,773   | \$9,848  | \$9,929  | \$10,017 |
| Rent                  | \$4,686   | \$4,897  | \$5,117  | \$5,348  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$1,542   | \$1,063  | \$546    | -\$10    |
| Required enrichment   |           | \$598    | \$644    | \$695    |

|                     | Base Year | Year 1   | Year 2   | Year 3   |
|---------------------|-----------|----------|----------|----------|
| <b>Ottawa</b>       |           |          |          |          |
| Income              | \$9,773   | \$9,848  | \$9,929  | \$10,017 |
| Rent                | \$5,934   | \$6,201  | \$6,480  | \$6,772  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$294     | -\$241   | -\$817   | -\$1,435 |
| Required enrichment |           | \$558    | \$600    | \$644    |
| <b>Toronto</b>      |           |          |          |          |
| Income              | \$9,773   | \$9,848  | \$9,929  | \$10,017 |
| Rent                | \$6,510   | \$6,803  | \$7,109  | \$7,429  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | -\$282    | -\$843   | -\$1,446 | -\$2,092 |
| Required enrichment |           | \$540    | \$579    | \$621    |
| <b>Winnipeg</b>     |           |          |          |          |
| Income              | \$9,639   | \$10,193 | \$10,790 | \$11,433 |
| Rent                | \$4,950   | \$5,173  | \$5,406  | \$5,649  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$1,144   | \$1,132  | \$1,119  | \$1,105  |
| Required enrichment |           | \$100    | \$108    | \$116    |
| <b>Regina</b>       |           |          |          |          |
| Income              | \$8,829   | \$8,851  | \$8,875  | \$8,901  |
| Rent                | \$4,800   | \$5,016  | \$5,242  | \$5,478  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$484     | -\$53    | -\$633   | -\$1,257 |
| Required enrichment |           | \$575    | \$619    | \$667    |
| <b>Saskatoon</b>    |           |          |          |          |
| Income              | \$8,829   | \$8,851  | \$8,875  | \$8,901  |
| Rent                | \$4,800   | \$5,016  | \$5,242  | \$5,478  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$484     | -\$53    | -\$633   | -\$1,257 |
| Required enrichment |           | \$575    | \$619    | \$667    |
| <b>Calgary</b>      |           |          |          |          |
| Income              | \$9,377   | \$9,399  | \$9,423  | \$9,449  |
| Rent                | \$5,520   | \$5,768  | \$6,028  | \$6,299  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$312     | -\$258   | -\$871   | -\$1,530 |
| Required enrichment |           | \$594    | \$639    | \$687    |
| <b>Edmonton</b>     |           |          |          |          |
| Income              | \$9,377   | \$9,399  | \$9,423  | \$9,449  |
| Rent                | \$5,250   | \$5,486  | \$5,733  | \$5,991  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$582     | \$24     | -\$576   | -\$1,222 |
| Required enrichment |           | \$603    | \$649    | \$698    |
| <b>Kelowna</b>      |           |          |          |          |
| Income              | \$9,512   | \$9,534  | \$9,558  | \$9,584  |
| Rent                | \$5,460   | \$5,706  | \$5,962  | \$6,231  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$507     | -\$60    | -\$670   | -\$1,327 |
| Required enrichment |           | \$606    | \$652    | \$702    |
| <b>Vancouver</b>    |           |          |          |          |
| Income              | \$9,512   | \$9,534  | \$9,558  | \$9,584  |
| Rent                | \$6,600   | \$6,897  | \$7,207  | \$7,532  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | -\$633    | -\$1,251 | -\$1,915 | -\$2,628 |
| Required enrichment |           | \$570    | \$611    | \$656    |



**Table 7: The Impact on Social Assistance Incomes of Rising Food and Shelter Costs, Single Adult with Disability Supports, Studio Apartment**

|                       | Base Year | Year 1   | Year 2   | Year 3   |
|-----------------------|-----------|----------|----------|----------|
| <b>St. John's</b>     |           |          |          |          |
| Income                | \$11,586  | \$11,610 | \$11,637 | \$11,665 |
| Rent                  | \$7,200   | \$7,524  | \$7,863  | \$8,216  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$841     | \$198    | -\$491   | -\$1,231 |
| Required enrichment   |           | \$708    | \$759    | \$814    |
| <b>Halifax</b>        |           |          |          |          |
| Income                | \$10,270  | \$10,293 | \$10,317 | \$10,344 |
| Rent                  | \$8,340   | \$8,715  | \$9,107  | \$9,517  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | -\$1,615  | -\$2,311 | -\$3,056 | -\$3,853 |
| Required enrichment   |           | \$572    | \$611    | \$653    |
| <b>Saint John</b>     |           |          |          |          |
| Income                | \$9,843   | \$10,478 | \$11,161 | \$11,898 |
| Rent                  | \$5,388   | \$5,630  | \$5,884  | \$6,149  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$910     | \$959    | \$1,012  | \$1,069  |
| Required enrichment   |           | \$22     | \$22     | \$24     |
| <b>Fredericton</b>    |           |          |          |          |
| Income                | \$9,843   | \$10,478 | \$11,161 | \$11,898 |
| Rent                  | \$7,500   | \$7,838  | \$8,190  | \$8,559  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | -\$1,202  | -\$1,248 | -\$1,295 | -\$1,341 |
| Required enrichment   |           | -\$46    | -\$53    | -\$61    |
| <b>Montreal</b>       |           |          |          |          |
| Income                | \$14,061  | \$15,144 | \$16,310 | \$17,566 |
| Rent                  | \$6,240   | \$6,521  | \$6,814  | \$7,121  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$4,276   | \$4,734  | \$5,230  | \$5,765  |
| Required enrichment   |           | -\$129   | -\$141   | -\$154   |
| <b>Trois-Rivieres</b> |           |          |          |          |
| Income                | \$14,061  | \$15,144 | \$16,310 | \$17,566 |
| Rent                  | \$4,200   | \$4,389  | \$4,587  | \$4,793  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$6,316   | \$6,866  | \$7,458  | \$8,093  |
| Required enrichment   |           | -\$64    | -\$68    | -\$72    |
| <b>Hamilton</b>       |           |          |          |          |
| Income                | \$15,119  | \$15,203 | \$15,293 | \$15,391 |
| Rent                  | \$7,980   | \$8,339  | \$8,714  | \$9,107  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$3,594   | \$2,975  | \$2,313  | \$1,605  |
| Required enrichment   |           | \$896    | \$960    | \$1,030  |
| <b>London</b>         |           |          |          |          |
| Income                | \$15,119  | \$15,203 | \$15,293 | \$15,391 |
| Rent                  | \$7,140   | \$7,461  | \$7,797  | \$8,148  |
| Food                  | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual              | \$4,434   | \$3,853  | \$3,231  | \$2,564  |
| Required enrichment   |           | \$923    | \$990    | \$1,063  |

|                     | Base Year | Year 1   | Year 2   | Year 3   |
|---------------------|-----------|----------|----------|----------|
| <b>Ottawa</b>       |           |          |          |          |
| Income              | \$15,119  | \$15,203 | \$15,293 | \$15,391 |
| Rent                | \$9,720   | \$10,157 | \$10,614 | \$11,092 |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$1,854   | \$1,157  | \$413    | -\$381   |
| Required enrichment |           | \$840    | \$898    | \$960    |
| <b>Toronto</b>      |           |          |          |          |
| Income              | \$15,119  | \$15,203 | \$15,293 | \$15,391 |
| Rent                | \$10,500  | \$10,973 | \$11,466 | \$11,982 |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$1,074   | \$342    | -\$438   | -\$1,271 |
| Required enrichment |           | \$815    | \$870    | \$928    |
| <b>Winnipeg</b>     |           |          |          |          |
| Income              | \$12,651  | \$13,319 | \$14,038 | \$14,813 |
| Rent                | \$7,332   | \$7,662  | \$8,007  | \$8,367  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$1,774   | \$1,768  | \$1,766  | \$1,766  |
| Required enrichment |           | \$142    | \$150    | \$158    |
| <b>Regina</b>       |           |          |          |          |
| Income              | \$15,826  | \$15,857 | \$15,890 | \$15,926 |
| Rent                | \$7,200   | \$7,524  | \$7,863  | \$8,216  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$5,081   | \$4,444  | \$3,762  | \$3,030  |
| Required enrichment |           | \$1,028  | \$1,104  | \$1,186  |
| <b>Saskatoon</b>    |           |          |          |          |
| Income              | \$15,826  | \$15,857 | \$15,890 | \$15,926 |
| Rent                | \$7,800   | \$8,151  | \$8,518  | \$8,901  |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$4,481   | \$3,817  | \$3,107  | \$2,345  |
| Required enrichment |           | \$1,009  | \$1,082  | \$1,162  |
| <b>Calgary</b>      |           |          |          |          |
| Income              | \$20,808  | \$20,842 | \$20,878 | \$20,917 |
| Rent                | \$9,540   | \$9,969  | \$10,418 | \$10,887 |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$7,723   | \$6,984  | \$6,194  | \$5,351  |
| Required enrichment |           | \$1,334  | \$1,430  | \$1,533  |
| <b>Edmonton</b>     |           |          |          |          |
| Income              | \$20,808  | \$20,842 | \$20,878 | \$20,917 |
| Rent                | \$9,000   | \$9,405  | \$9,828  | \$10,270 |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$8,263   | \$7,548  | \$6,784  | \$5,967  |
| Required enrichment |           | \$1,351  | \$1,449  | \$1,555  |
| <b>Kelowna</b>      |           |          |          |          |
| Income              | \$15,293  | \$15,321 | \$15,351 | \$15,383 |
| Rent                | \$11,256  | \$11,763 | \$12,292 | \$12,845 |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | \$492     | -\$330   | -\$1,206 | -\$2,141 |
| Required enrichment |           | \$860    | \$917    | \$978    |
| <b>Vancouver</b>    |           |          |          |          |
| Income              | \$15,293  | \$15,321 | \$15,351 | \$15,383 |
| Rent                | \$11,880  | \$12,415 | \$12,973 | \$13,557 |
| Food                | \$3,545   | \$3,889  | \$4,266  | \$4,679  |
| Residual            | -\$132    | -\$982   | -\$1,888 | -\$2,853 |
| Required enrichment |           | \$840    | \$895    | \$953    |

In the previous section, we showed how the combination of failures to index large portions of social assistance incomes and the reliance on social assistance, where shelter and food costs make up a larger share of the total expenditures than is the case for the average Canadian household, mean that inflation (particularly in food prices and rents), is very harmful to that population. The calculations presented in Tables 5, 6 and 7 show that with rare exceptions, inflation exposes these individuals and families to a steady and deep erosion in their standards of living, and leaves them having to rely on periodic, unscheduled increases in social assistance incomes, implemented by provincial governments, some of whom, as we discuss further below, are not known for making frequent enrichments or adjustments to social assistance incomes.

It is not difficult to imagine how a household with a limited income, a household further constrained by a lack of savings and with limited or no access to borrowing from non-predatory lenders, must respond to rates of inflation in the prices of food and rent that exceed increases in their incomes. The household must respond by reducing the quantity and/or quality of goods and services they purchase. Unless those provincial governments who fail to index incomes make a commitment to introduce frequent *ad hoc* additions to income, we should expect the effects of inflation to force individuals and families to respond in ways such as the following:

### **Squeeze the Residual Budget**

The calculations in Tables 5, 6 and 7 are based on the assumptions that the quantity of food purchased, and the size and quality of shelter are unchanged. As the price of food and housing increase relative to social assistance incomes, residual income falls, making it necessary to reduce the quantity or quality of goods and services purchased with that residual income. But as reported in Table 5, after three years of inflation, a lone parent with one child living in Vancouver would see their residual income fall from just \$49.46 per week to only \$13.96 per week. Keeping in mind that this income is intended to cover the cost of all but shelter and food, it is inevitable that adjustments must be made to the budgets for food and housing.

### **Adopt a Less Healthy Diet**

A healthy diet is a more expensive diet both in terms of cost and the time required to prepare meals. A survey of research looking at the relative costs of a healthy diet versus an unhealthy diet reported that a healthy diet in 2013 cost about US\$1.50 per day per person more.<sup>12</sup> Even without adjusting this amount for the change in currency and for the effects of inflation since 2013, the adjustment to a less healthy diet can save a lone parent with one child over \$1,000 per year, or roughly 20 per cent of the food budget reported in Table 5. It is worth noting that adjusting to a less healthy diet, while saving our hypothetical family on their food budget, eventually imposes costs on the health system as the consequences of that diet appear in the form of poorer health outcomes.

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<sup>12</sup> See Rao et al. (2013).

## Increase Use of Food Banks

Still focused on the food budget, rising prices for food and rent relative to social assistance income may also be accommodated by making use of a food bank. Increased visits to a food bank reduce the individual's or family's food budget and, in this way, protect that part of the budget allotted to meeting the cost of rent and other basic needs. In other work (Kneebone and Wilkins 2022) we have shown this response to be very strong. Food bank visits are very sensitive to social assistance incomes being eroded by inflation and to increases in rent relative to income. They are a response to the squeeze put on low incomes when those incomes are not insulated from inflation. In this way, food banks can be understood to be an important measure by which people can maintain their housing and so avoid homelessness. In this way too, growing numbers of food bank visits can be understood to play a role like that of a canary in a coal mine; namely, they are an early warning of deeper trouble in the form of rising rates of homelessness. In Toronto, these warning signs are already flashing.<sup>13</sup>

## Crowding

Another response to rising rent and food costs relative to income is to adjust the cost of one's shelter. These responses include downsizing to smaller, less expensive rental units or it may include taking in a boarder to share costs.<sup>14</sup> The latter response is what the Canada Mortgage & Housing Corporation (CMHC) defines as "overcrowding." CMHC defines overcrowding as occurring when the number of people residing in a housing unit exceeds the National Occupancy Standard for that size of unit. For a one-bedroom apartment, the NOS defines overcrowding as occurring when more than two people reside in that apartment. Kneebone (2021) provides evidence of renters resorting to crowding as rents consume a larger fraction of their budgets.

## Homelessness

While some limited adjustments to the cost of housing can be introduced by downsizing and by crowding, for the most part housing is a very difficult expenditure to reduce. The cost of housing is the largest and least flexible claim on income. As Raphael (2010) has noted, if there is little income left over for other of life's necessities, one might rationally choose to forgo conventional housing and try one's luck doubling up with relatives or friends or temporarily using a city's shelter system. Thus, to the extent that minimum quality housing is priced such that it would consume an extremely high proportion of one's income, a person may become homeless. When rents increase faster than social assistance incomes, research in the U.S. and internationally confirms that rates of homelessness increase. We have recently confirmed that this empirical relationship is equally strong in Canada (Kneebone and Wilkins 2021). In that research, we have found that a one per cent increase in rent relative to income is associated with a two per cent increase in the prevalence of homelessness. Failing to increase social assistance incomes during a period of rent inflation is a recipe for rising rates of homelessness.

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<sup>13</sup> From January 2019 to April 2022, food bank visits in Toronto have more than doubled. See Toronto Progress Portal <https://www.toronto.ca/city-government/data-research-maps/toronto-progress-portal/>.

<sup>14</sup> In considering this option, keep in mind that in our calculations we have already used the rent of a relatively low-quality rental unit priced at the top of the first quartile in each community's distribution of rents. The term "doubling up" is used to describe a situation when two families share accommodation to split the cost of rent. Vacha and Marin (1993) describe this type of overcrowding as a form of homeless shelter provision offered by families and friends who are often at risk of homelessness themselves.

## SO, WHAT TO DO?

The calculations presented in Tables 5, 6 and 7 show that a lack of indexation of social assistance incomes exposes individuals and families reliant on those incomes to the risk of a rapid deterioration in their standards of living should their provincial government fail to provide *ad hoc* enrichments to their social assistance incomes. In the previous section, we discussed the ways in which that deterioration must be revealed. The responses we described are inevitable because they are driven by simple accounting. Holding one's income constant, while the costs of necessities increase, makes it inevitable for that spending to be reduced. Eventually, spending on housing, the largest and least flexible expenditure in the budget of an individual or family reliant on social assistance, must be forgone. Homelessness is an inevitable outcome.

Fortunately, the solution to this problem is clear. What's more, the solution has been implemented in Quebec, and partially in New Brunswick and Manitoba, so we know it is not an intractable problem. The solution is to index all types of income support provided to individuals and families to an appropriate measure of inflation. The solution sees income adjusted automatically and does not leave people dependent on the whims of provincial governments. All that needs to be done is to implement the solution everywhere.<sup>15</sup>

To its credit, the federal government has indexed child benefits and the GST credit, which are made available to families receiving social assistance income. For a lone parent with one child, these benefits account for about 1/3 of their income. Unfortunately, because federal income support is almost wholly tied to child benefits (it also contributes the GST credit), the benefit of federal indexation is not extended to single people. Providing income support to single people is almost entirely the responsibility of provincial governments. Except in Quebec, and to a lesser extent in New Brunswick and Manitoba, single people are left almost totally exposed to the effects of inflation and the risk that provincial governments will not provide them with required income enhancements.

Tables 5, 6 and 7 present calculations ("required enrichment") of the amounts by which governments must increase social assistance benefits to maintain standards of living during periods of inflation. To middle-income Canadians, these are not large amounts. From Table 5, for a lone parent living in Vancouver, one year of inflation requires a benefit enrichment of \$776. That is \$65 per month or \$15 per week. But this is to supplement a budget line for that family that is intended to pay for all necessities other than shelter and food. The enrichment of \$776 per year increases that residual budget line by 39 per cent. Or, to put it differently, the enrichment prevents the budget for all non-shelter and non-food expenditures from falling by 39 per cent. After two years, a further enrichment of \$828 per year, or \$16 per week is needed to keep the non-shelter, non-food budget from falling a further 60 per cent. While small in dollar terms, these enrichments, if they are not made, mean the difference between a lone parent remaining housed and falling into homelessness. For a single person, these enrichments are even more critical for enabling someone to avoid homelessness.

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<sup>15</sup> Although indexing all sources of income support to inflation, as defined by the all-items CPI, would go a long way toward protecting the real incomes from inflation, it does not do so completely because as noted earlier, the all-items CPI is not an accurate measure of inflation as it is experienced by individuals and families reliant on social assistance. The importance of this consideration grows with differences in the rates of inflation for housing and food versus other goods in the CPI basket. In the examples we have considered in this note, those differences are not so large that using a CPI measure, better attuned to the budgets of social assistance recipients, would have a large impact on our calculations.

## SO, WHY NOT INDEX?

In our examples we have shown what happens if provincial governments do not respond to inflation by making what we have referred to as benefit enrichments, namely, periodic, unscheduled increases in social assistance incomes. The consequences are dire with effects measured in terms of poorer diets, deteriorating health, crowded living conditions, higher food bank use and rising rates of homelessness. Why do provincial governments choose to rely on *ad hoc* adjustments when indexation would provide better outcomes?

An answer may be that provincial governments believe the CPI is biased and that their *ad hoc* adjustments are meant to hold real income constant as defined by some undisclosed cost-of-living indexes. To investigate this possibility, we calculate the percentage change in the provincial portion of social assistance income, provided to a single person without a disability, each year since 2000. We do this for the seven provinces that do not apply an appreciable amount of indexation to their social assistance incomes and so rely heavily on *ad hoc* benefit enrichments. If the provincial government's goal is to introduce benefit enrichments sufficient to hold the purchasing power of social assistance income constant, this calculation reveals the rate of change in the undisclosed price index it uses to ensure this.

This exercise reveals that assuming provincial governments rely on *ad hoc* benefit enrichments to better enable them to protect social assistance incomes from inflation, is difficult to believe. In Alberta, for example, over the 20-year period 2000 to 2019, this interpretation suggests that in 12 of those years the government believed that the cost of living for single Albertans reliant on social assistance either did not change or in some years fell. In British Columbia, Ontario and Nova Scotia, the implication is that those governments believed there were 10, five and five years, respectively, when the cost of living in those provinces, for single people, did not change. What's more, many of those years were consecutive, suggesting these governments believed there were long stretches of time over which the cost of living for income support recipients was constant.

We suggest this evidence makes it incredible for anyone to believe that governments prefer using benefit enrichments to automatic indexing, because they have a better measure of inflation appropriate for citizens dependent on social assistance income. The truth is that when governments choose not to index benefits to published cost-of-living indexes, then social assistance recipients are exposed to a form of political risk, one where their standard of living is tied to the good graces of government.

## CAUTIONS

It is important to stress that nothing in our calculations should be interpreted as suggesting social assistance incomes are adequate for meeting the purposes to which they are put, namely, making it possible for people to afford the cost of meeting basic needs. Earlier, we noted that it is not unusual for a lone parent with one child to have to allocate 70 per cent of social assistance income to food and shelter. In some high-rent communities, like Vancouver and Toronto, over 85 per cent of income must be devoted to shelter and food, leaving the lone parent with very little available to meet other basic needs, such as clothing and transportation costs. For a single person the budget is even tighter than this, and in some communities is even insufficient to meet the costs of food and shelter without further crowding, poorer diets, greater use of food banks or abandoning housing altogether. Indexation to protect social assistance recipients from inflation will not solve the problem of income supports set at levels that are too low to enable people to keep their housing and maintain their health. That is a separate issue.

We also caution that our calculations are illustrative and based on assumptions that rates of inflation in the near future will be the same as observed in the recent past and that the same rates of inflation will be observed in all communities. Our calculations of required enrichments are sensitive to these assumptions. Our goal has not been to determine what the exact size income enrichments need to be, but only to show how necessary the enrichments are to prevent rapid growth in food bank visits, rising rates of homelessness and a further deterioration in the health of individuals and families with low income.

## CONCLUSION

In this note, we have provided measures of the effects of high rates of inflation in food prices and the costs of housing on Canadian households reliant on government-provided income assistance. We show that during periods of inflation, Canadians reliant on social assistance are subject to two types of risk, one economic and one political. The economic risk is due to the fact that inflation threatens to cause them to endure a catastrophic fall in what is already a low standard of living. The political risk arises because in most, though not all, provinces, whether inflation results in a fall in living standards is entirely dependent upon whether politicians choose to introduce periodic, unscheduled increases in social assistance incomes euphemistically referred to as income “enrichments.” With a single stroke of a legislative pen, the political risk can be eliminated, and the economic risk would be minimized. The high rates of inflation currently being experienced add urgency to this consideration. Deteriorating health, increased reliance on food banks and rising rates of homelessness are just some of the inevitable consequences of delay.

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